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BUREAU OF
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(U) PAKISTAN'S SHORT-TERM PROSPECTS

Summary

(S) President Zia-ul-Haq's chances of finishing out the year as Pakistan's leader are in doubt. He has called elections for November 17, but it would not be surprising if he canceled or postponed them. He would run some risk in doing so--martial law is unpopular, and he would face increasing unrest.

(S) Tensions between the provinces will continue to frustrate Zia's efforts to develop a national consensus on the type of government Pakistan should have. The deep malaise in Pakistan is thus unlikely to improve by the end of 1979. On the other hand, there are few clear alternatives to Zia, and the military probably will stick with him at least as long as the country is peaceful.

(C) On the economic front, Pakistan is encountering severe difficulties. Inflation is accelerating. The size of the balance of payments deficit has caused Pakistan to ask for debt rescheduling.

(C) Foreign affairs also present problems for Zia. He would like to be able to use the US as a counterweight to the USSR, but his determination to proceed with nuclear development is complicating Islamabad's relations with Washington. The Pakistani nuclear program also may eventually undo the present improvement in relations with India, which are the best they have been in recent history. Finally, Pakistan's relations with Afghanistan will continue to be dangerously uneasy.

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Zia's Political Problems

(C) Lack of firm leadership has had a profoundly depressing effect on the Pakistani population. While President Zia is not actively hated--his martial law administration is not harsh--he is generally regarded as a bungler incapable of extricating himself or the country from the current troubles. Among the upper and middle classes, there is a flight of capital and talent that bodes ill for Pakistan's future political and economic stability.

(U) Zia's main political opposition continues to come from former Prime Minister Bhutto's Pakistan People's Party, which has shown signs in the past month of regenerating its power as the largest and best-organized political party in Pakistan's history. Although initially reeling from the shock of Bhutto's execution last April, the party's leaders are increasingly confident that they could win any fair election in Pakistan.

(C) Their strategy reportedly is to lie low, avoid confronting the martial law administration on any issue, and take their case to the people. While the party still faces potential problems over leadership, Bhutto's wife has announced her claim to head it. She may be able to supply the unity the party needs to compete in the elections, though she will be largely a figurehead.

(U) Zia also faces potential opposition from those who once supported him. The loose coalition of parties that banded together to topple Bhutto in 1977 extended its support to the successor martial law government. The parties gradually fell away, however, in disputes with Zia over various issues, culminating with the complete withdrawal of civilian political participation in Zia's government a month after Bhutto's execution. They have now joined the Pakistan People's Party in opposing continuation of martial law and calling for elections.

(U) Factionalism and a lack of charismatic leaders plague Pakistan's political groupings. One of the formerly

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powerful opposition organizations, the tribal-based National Democratic Party, recently split apart in a clash over personalities and over the degree of provincial autonomy that the party would espouse.

The Election Issue

(C) Whether Zia will hold elections is uncertain. As late as July 22, he recommitted himself to polls in November. The outcome he desires would be a majority of seats won by center and rightist parties, which would then form a governing coalition--possibly with a strong military president to keep them on an even keel. A victory by the People's Party, on the other hand, would threaten Zia's personal liberty as well as reinstate policies that Zia believes bankrupted the country both morally and economically.

(C) With electoral modifications designed to weaken the opposition, Zia might go ahead with elections. He has insisted that not only will he turn over power to an elected government, but also that he will resign as Chief of Army Staff and retire from public life. That he would willingly take himself completely out of public life, however, seems unlikely.

(C) Despite his assurances that elections will be held, it would not be out of character for Zia to reverse himself out of fear of the latent strength of the opposition. He could also cancel elections for other reasons, particularly if there is pre-election turmoil, or even--as some are convinced--to be sure of keeping his job.

(S) If Zia does break his promise to hold elections, increasing public unrest can be expected. The People's Party would certainly take the lead to try to bring him down. He would also face rising pressure from within the military. Several of his generals feel that the army has already been too long in the difficult and distracting business of running the country. If he does not hold elections soon, they might quietly press him to step aside. Zia, however, probably would be able to resist such pressure as long as he is not confronted with serious internal disorders at the same time.

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(C) Economic Problems

Pakistan's poor economic prospects reflect the lack of forceful political leadership. Industrial production is recovering somewhat from the stagnation of the Bhutto era, although political uncertainties are inhibiting investment confidence in the private sector. Agricultural performance remains mixed. Wheat production is at a record level and rice has been showing steady increases in production; on the other hand, cotton, vital both to the domestic textile industry and as an export earner, remains in a prolonged slump. Overall growth in gross domestic product in 1978-79 was in the range of 6 to 7 percent for the second year in a row, in contrast to the 2- to 3-percent rates that prevailed during the last years of Bhutto's rule.

At the same time, Pakistan is rapidly approaching financial crisis, and its leaders have once again requested debt rescheduling. At the heart of its difficulties are massive government budget deficits swollen by large consumer subsidies and by heavy expenditures on misconceived public-sector industrial projects, the nuclear program, and a large defense budget.

The result is an accelerating inflation rate and a severe balance of payments problem. Only a high level of expatriate worker remittances prevented a balance of payments crisis last year. In the meantime, the external debt service burden is increasing rapidly, resulting in a serious erosion of net foreign aid flows. A foreign debt rescheduling exercise will probably become a necessity within the next year, but Pakistan's official creditors remain reluctant to consider special financial accommodations until the government shows more determination to try to live within its means.

The Foreign Equation

(S/NF/NC/OC) Pakistan's troubled relationship with the US is a central preoccupation for Pakistani leaders. Zia, however, is not likely to go very far to compose the differences. Instead, he seems likely to feed anti-American propaganda as a way to deflect domestic criticism.

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(S/NF/NC/OC) The most probable issue for collision with the US is the Pakistani nuclear program. There is a good possibility that Islamabad will continue its clandestine effort to gain a nuclear explosive capability. It appears to be attempting to mask its efforts with the label of "research and development." The Pakistanis seem bent on stringing out negotiations with the US and other Western countries in order to gain time for their scientists. There are conflicting reports on when such a test would be technically feasible. Some reports suggest Islamabad may try to detonate a device as early as this fall. It is not likely, however, that Pakistan will have the capability to conduct a test this year, as was previously expected.

(C) Another problem in the US-Pakistani relationship is the unchecked expansion of opium poppy cultivation in the tribal areas of Pakistan along the Afghan border. The output of the Pakistani area probably reached 400 metric tons last year. Combined with the production of neighboring Afghanistan, the total surpasses that of the "Golden Triangle";^{1/} and Pakistani refining capacity is becoming increasingly sophisticated.

(C) The Pakistani writ of authority, never very strong in tribal areas, is now even less effective in controlling opium production and smuggling because of the insurgency on the Afghan side of the border. In addition, the Islamic ordinance introduced in February banning all intoxicants paradoxically threw the narcotics control apparatus into a shambles when it removed existing enforcement mechanisms without providing new ones.

(C) Afghanistan will continue to be an urgent foreign policy problem for Pakistan over the next six months. So far, Islamabad has reacted with considerable restraint to the pressure of approximately 140,000 refugees inside its borders, hostile propaganda from Kabul and Moscow, and various border incidents such as jet aircraft overflights and occasional shelling. Islamabad's urge to aid the dissidents in overthrowing the unfriendly Taraki/Amin regime may

^{1/} The inaccessible, mountainous Shan plateau which ranges from northeastern Burma into Thailand, Laos, and China.

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grow but will be tempered by the knowledge that the Soviets and Afghans have the capability to make things quite uncomfortable for Pakistan by meddling in Baluchistan.

(C) Pakistan should achieve its goal of joining the non-aligned movement following September's summit meeting in Havana. Islamabad has made a wide-ranging and effective effort in lobbying support for admission. Pakistan is likely to be admitted even in the face of Afghan opposition--which Afghanistan has threatened. India dropped its opposition to Pakistan's entry after dissolution of the CENTO alliance early this year.

(C) Relations with India are the one bright spot in Pakistan's present situation. They are better than they have been for the nearly 33 years of the countries' separate existence. Not only are there full diplomatic and consular relations but also air, land, communications, and trade links. The unresolved Kashmir issue has seemingly been pushed to a back burner, and each country has been carefully noncommittal about the internal and foreign affairs problems of the other. The Pakistani leadership was especially relieved by India's restraint when Bhutto was executed. Although Islamabad still distrusts New Delhi for its relationship with the Taraki regime in Kabul, in some ways Pakistan has come to look upon India as a source of support.

(S) This harmony is not likely to last. Desai's ouster and replacement by Charan Singh will certainly herald a more nationalistic, less idealistic Indian government. Although not otherwise hostile to Pakistan, Indian policy is likely to be determined by sensitivity over the nuclear issue. If New Delhi perceives the Pakistani nuclear weapons effort as serious, it could quickly lead to a deterioration in relations. As India prepares for elections this November, the caretaker Singh government is not likely to take any dramatic steps that would undermine relations, though some of the campaign rhetoric could focus on the threat of a Pakistani "bomb."

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